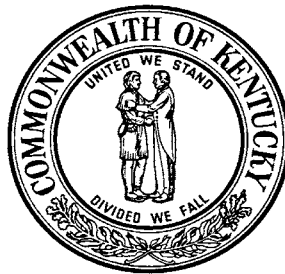


**REPORT OF THE AUDIT OF THE  
BOYD COUNTY  
SHERIFF'S SETTLEMENT - 2000 TAXES**

**April 30, 2001**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
BOYD COUNTY  
SHERIFF'S SETTLEMENT - 2000 TAXES**

**April 30, 2001**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Boyd County Sheriff as of April 30, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected net taxes of \$12,494,910 for the districts for 2000 taxes. The Sheriff distributed taxes of \$12,443,677 to the districts for 2000 Taxes. Taxes of \$30,241 are due to the districts from the Sheriff and refunds of \$3,583 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Overpaid Commissions To His Fee Account
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Bill Scott, Boyd County Judge/Executive  
Honorable Philip Sturgill, Boyd County Sheriff  
Members of the Boyd County Fiscal Court

Independent Auditor's Report

We have audited the Boyd County Sheriff's Settlement - 2000 Taxes as of April 30, 2001. This tax settlement is the responsibility of the Boyd County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Boyd County Sheriff's taxes charged, credited, and paid as of April 30, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 9, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Bill Scott, Boyd County Judge/Executive  
Honorable Philip Sturgill, Boyd County Sheriff  
Members of the Boyd County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments.

- The Sheriff Overpaid Commissions To His Fee Account
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 9, 2002



BOYD COUNTY  
PHILIP STURGILL, SHERIFF  
SHERIFF'S SETTLEMENT - 2000 TAXES

April 30, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,523,718	\$ 3,108,504	\$ 2,760,559	\$ 1,785,952
Tangible Personal Property	307,835	503,881	660,463	1,529,245
Intangible Personal Property				267,915
Increases Through Exonerations	735	1,391	1,628	355
Franchise Corporation	199,656	384,799	375,302	
Additional Billings	1,068	3,147	3,650	3,707
Unmined Coal - 2000 Taxes	364	830	1,077	424
Oil/Gas Property Taxes	677	1,542	2,002	788
Clay Reserves	21	48	63	25
Bank Franchises	133,878			
Penalties	13,906	26,923	26,070	17,992
Adjusted to Sheriff's Receipt	(81)	154	1	(550)
Gross Chargeable to Sheriff	<u>\$ 2,181,777</u>	<u>\$ 4,031,219</u>	<u>\$ 3,830,815</u>	<u>\$ 3,605,853</u>
<u>Credits</u>				
Exonerations	\$ 16,089	\$ 30,351	\$ 24,420	\$ 29,775
Discounts	27,506	50,706	47,921	56,017
Delinquents:				
Real Estate	56,409	107,591	102,216	66,284
Tangible Personal Property	8,362	13,733	10,522	22,225
Intangible Personal Property				6,613
Total Credits	<u>\$ 108,366</u>	<u>\$ 202,381</u>	<u>\$ 185,079</u>	<u>\$ 180,914</u>
Net Tax Yield	\$ 2,073,411	\$ 3,828,838	\$ 3,645,736	\$ 3,424,939
Less: Commissions (a)	<u>88,407</u>	<u>134,388</u>	<u>109,372</u>	<u>145,847</u>
Net Taxes Due	\$ 1,985,004	\$ 3,694,450	\$ 3,536,364	\$ 3,279,092
Less:				
Taxes Paid	1,981,893	3,660,860	3,526,657	3,274,267
Refunds (Current and Prior Year)	3,867	5,320	7,736	7,890
Add: Penalty (KRS 46.990)				238
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (756)</u>	<u>\$ 28,270</u>	<u>\$ 1,971</u>	<u>\$ (2,827)</u>

(a), (b) and (c) See Page 4

BOYD COUNTY  
 PHILIP STURGILL, SHERIFF  
 SHERIFF'S SETTLEMENT - 2000 TAXES  
 April 30, 2001  
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	7,547,443
4% on	\$	972,631
3% on	\$	3,645,736
1% on	\$	797,114

(b) Special Taxing Districts:

Library District	\$	112
Health District		30
Extension District		189
Ambulance District		2,509
Big Sandy Fire District		1,639
Cannonsburg Fire District		9,197
East Fork Fire District		2,385
England Hill Fire District		4,132
Westwood Fire District		2,645
Summit Ironville Fire District		5,432
		<hr/>
Due Districts	\$	<u>28,270</u>

(c) School Districts:

Common School District	\$	1,747
Fairview School District		224
		<hr/>
Due Districts	\$	<u>1,971</u>

The accompanying notes are an integral part of the financial statement.

BOYD COUNTY  
NOTES TO FINANCIAL STATEMENT

April 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 30, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

BOYD COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2001  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 16, 2000 through April 30, 2001.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2000. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2000 through April 30, 2001.

Note 4. Sheriff's 10% Add-On Fee

The Boyd County Sheriff collected \$70,160 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 5. Advertising Costs And Fees

The Boyd County Sheriff collected \$3,335 of advertising costs and \$8,787 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2000 taxes, the Sheriff had \$11,405 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

Note 7. Bond Coverage

KRS 134.320 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is supposed to cover all tax monies in the Sheriff's possession. During the 2000 tax year, the Sheriff did not have a county revenue bond to protect the county from potential loss.

## COMMENTS AND RECOMMENDATIONS



BOYD COUNTY  
PHILIP STURGILL, SHERIFF  
COMMENTS AND RECOMMENDATIONS

April 30, 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Overpaid Commissions To His Fee Account

The Sheriff overpaid tax commissions from his 2000 tax account to his 2000 fee account. This tax commission overpayment resulted from the Sheriff charging a 4.25% commission rate for collecting fire and ambulance district taxes. KRS 75.040 sets a commission rate of 1% for fire district taxes and KRS 108.100 sets a commission rate of 4% for ambulance districts. By charging a commission rate of 4.25% instead of the correct rates, the Sheriff overcharged \$28,300 in commissions for collecting fire and ambulance district taxes. Furthermore, the Sheriff underpaid taxes to the fire and ambulance districts in the same amount. When the Sheriff paid commissions to his fee account, the overcharged fire and ambulance district commissions were included resulting in a \$28,300 tax commission overpayment to the fee account. We recommend the Sheriff transfer the \$28,300 in commission overpayments back to his tax account from 2000 fee account and pay this amount over to the appropriate districts.

*Sheriff's Response:*

*None.*

2. The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts

The Sheriff deposited funds into a non-interest bearing bank account. KRS 66.480 states that the Sheriff may, and at the direction of the fiscal court shall, invest and reinvest money subject to their control and jurisdiction. Prudent financial management dictates that the Sheriff take advantage of earnings potential by depositing funds into interest-bearing bank accounts. We recommend the Sheriff invest all funds into interest bearing bank accounts.

*Sheriff's Response:*

*None.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information.

BOYD COUNTY  
PHILIP STURGILL, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
April 30, 2001  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS: (Continued)

Lacks Adequate Segregation Of Duties (Continued)

We recommend the Sheriff redistribute duties to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff periodically examines tax distribution checks prepared by another employee and distributes checks to taxing districts
- All other disbursements checks prepared by employee are periodically examined by the Sheriff for proper documentation (Refunds, Interest)
- The Official mails disbursements
- The Sheriff or someone independent of the Sheriff's Tax Office prepares bank reconciliation

*Sheriff's Response:*

*None.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Boyd County Sheriff's Settlement - 2000 Taxes as of April 30, 2001, and have issued our report thereon dated August 9, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Boyd County Sheriff's Settlement - 2000 Taxes as of April 30, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Overpaid Commissions To His Fee Account
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boyd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 9, 2002

